

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 PA-01 /092 W
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R 022145Z MAY 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7275
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA POUCH

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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING APRIL 28.

1. SUMMARY. SEASONALLY ADJUSTED MERCHANDISE TRADE SURPLUS EXPANDED SHARPLY TO CDOLS 840 MILLION IN MARCH FROM FEBRUARY LEVEL OF CDOLS 252 MILLION, PRODUCING FIRST QUARTER SURPLUS OF CDOLS 1.4 BILLION. VALUE OF EXPORTS ROSE ONLY 1.5 PERCENT FOR MONTH BUT IMPORTS DROPPED BY 13 PERCENT. GOC 1.5 DM BOND ISSUE, NEW U.S. DOLLAR STANDBY CREDIT, INCREASE IN TRADE SURPLUS AND CONTINUED CAUTION AMONG SPECULATORS PROVIDED SUPPORT TO CANADIAN DOLLAR EXCHANGE RATE. IT&C SURVEY GAVE FURTHER EVIDENCE OF WEAK PRIVATE INVESTMENT OUTLOOK IN 1978. JOB VACANCIES UP IN FIRST QUARTER. WHOLESALE PRICE INDEX, INDEX OF INDUSTRY SELLING PRICES, AND LABOR INCOME ROSE IN FEBRUARY. SHORT TERM INTEREST RATES DECLINED IN WEEK AND BOND PRICES ROSE, REFLECTING MORE STABLE EXCHANGE MARKET. END SUMMARY.

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2. MERCHANDISE TRADE BALANCE: SEASONALLY ADJUSTED MERCHANDISE TRADE SURPLUS (BALANCE OF PAYMENTS BASIS) EXPANDED SHARPLY TO CDOLS 840 MILLION IN MARCH FROM REVISED FEBRUARY LEVEL OF CDOLS 252 MILLION. VALUE OF EXPORTS ROSE BY ONLY 1.5 PERCENT TO CDOLS 4.36 BILLION, WHILE IMPORT VALUE DECLINED BY 13 PERCENT TO CDOLS 3.5 BILLION. ON CUSTOMS BASIS, EXPORTS TO U.S. WERE DOWN 2.8 PERCENT AND IMPORTS

FROM U.S. FELL BY 9 PERCENT, REACHING MONTHLY TOTALS OF CDOLS 2.9 BILLION AND CDOLS 2.5 BILLION RESPECTIVELY.

3. TRADE SURPLUS TOTALLED CDOLS 1.4 (CDOLS 5.6 BILLION ANNUAL RATE) BILLION IN FIRST QUARTER, COMPARED WITH CDOLS 1.2 BILLION SURPLUS IN STRONG FOURTH QUARTER OF 1977. EXPORTS IN FIRST QUARTER WERE CDOLS 12.2 BILLION AND IMPORTS, CDOLS 10.8 BILLION. EXPORTS AND IMPORTS WERE UP 3.5 PERCENT AND 1.8 PERCENT RESPECTIVELY OVER THEIR LEVELS IN FOURTH QUARTER, 1977.

4. EXCHANGE MARKETS. ANNOUNCEMENT OF GOC 1.5 BILLION DM BOND ISSUE AND NEW U.S. DOLLAR STANDBY CREDIT (SEE OTTAWA 2218) AND STRONG INCREASE IN TRADE SURPLUS WERE MAIN FACTORS BOOSTING CANADIAN DOLLAR EXCHANGE RATE DURING WEEK. EXCHANGE RATE CLOSED AT 88.50 U.S. CENTS ON FRIDAY, UP FROM PREVIOUS WEEK'S CLOSE OF 87.35 U.S. CENTS. WIDE AMPLITUDE OF DAY-TO-DAY FLUCTUATIONS IN RATE PROBABLY CONTINUED TO DETER SPECULATORS.

5. INVESTMENT OUTLOOK: IT&C BIENNIAL SURVEY OF INVESTMENT INTENTIONS OF 300 LARGE COMPANIES POINTS TO NOMINAL RISE OF 13.1 PERCENT TO CDOLS 19.5 BILLION IN CAPITAL OUTLAYS IN 1978 OVER 1977 LEVEL OF CDOLS 17.2 BILLION. IN ITS OCTOBER, 1977 SURVEY, IT&C PROJECTED NOMINAL INVESTMENT SPENDING OF CDOLS 18.9 BILLION IN 1978, UP 6.4 PERCENT LIMITED OFFICIAL USE

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FROM CDOLS 17.8 BILLION IN 1977. THUS, LARGER PERCENTAGE CHANGE SHOWN IN LATEST SURVEY IS THE RESULT OF BOTH UPWARD REVISION OF 1978 PROJECTIONS AS WELL AS LOWER ESTIMATES FOR 1977.

6. SURVEY COVERS ONLY LARGE COMPANIES AND EXCLUDES RESIDENTIAL CONSTRUCTION AND GOVERNMENT SECTOR. IT NOTES THAT 13.1 PERCENT EXPECTED NOMINAL INCREASE IN INVESTMENT SPENDING THIS YEAR IMPLIES 5 PERCENT RISE IN REAL SPENDING FOR COMPANIES SURVEYED AND REAL ADVANCE OF ONLY ZERO TO TWO PERCENT FOR PRIVATE SECTOR OVERALL. (FOR DETAILS OF INTERPRETATION OF IT&C SURVEY AND COMPARISONS WITH OTHER SURVEYS, SEE OTTAWA 9909 - 1977). SURVEY ALSO INDICATES THAT BUSINESS IS GENERALLY MORE OPTIMISTIC THAN IN PAST CONCERNING OUTLOOK FOR PROFITS, EXPORT SALES AND CAPACITY UTILIZATION RATES.

7. MANUFACTURING INVESTMENT PROJECTED TO RISE BY 18.8 PERCENT TO CDOLS 4.1 BILLION IN 1978, WHILE NON-MANUFACTURING INVESTMENT MAY RISE BY 11.6 PERCENT TO CDOLS 15.4 BILLION. MINING COMPANIES FORECAST TO REDUCE NOMINAL SPENDING BY 12.3 PERCENT AND OIL AND GAS COMPANIES BY 3.9 PERCENT. IN CONTRAST, INVESTMENT IN ELECTRICAL UTILITIES,

PRIMARY METALS AND SERVICES EXPECTED TO INCREASE BY 28 PERCENT, 22 PERCENT AND 23 PERCENT RESPECTIVELY.

8. ECONOMIC INDICATORS:

-- JOB VACANCIES IN FIRST QUARTER AVERAGED 37,800, UP 6.2 PERCENT FROM FOURTH QUARTER 1977, BUT 4.8 PERCENT BELOW LEVEL OF FIRST QUARTER LAST YEAR.

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-- WHOLESALE PRICE INDEX (NSA) ROSE BY 1.2 PERCENT TO 588 (1935-39 100) IN FEBRUARY, REFLECTING CONTINUED STRONG INCREASE IN FOOD PRICES, WHICH HAVE HEAVY WEIGHT IN INDEX. INDEX HAS RISEN 8.7 PERCENT SINCE FEBRUARY, 1977. PRICES OF MANUFACTURED PRODUCTS WERE UP 1 PERCENT IN MONTH.

-- INDUSTRIAL SELLING PRICE INDEX (NSA) INCREASED BY 0.7 PERCENT TO 181.5 (1971100) IN FEBRUARY. INDEX STOOD 7.5 PERCENT ABOVE LEVEL OF FEBRUARY, 1977. CONTINUED STRONG INCREASE IN WPI AND INDUSTRY SELLING PRICE BODE ILL FOR TREND OF CONSUMER PRICES IN COMING MONTHS.

-- LABOR INCOME TOTALLED CDOLS 10.3 BILLION IN FEBRUARY, A 1.4 PERCENT RISE FROM JANUARY. HOWEVER, FEBRUARY LEVEL REMAINS BELOW THAT OF DECEMBER, 1977.

9. CAPITAL MARKETS: RELATIVE STABILITY OF EXCHANGE
MARKETS INDUCED DECLINE IN SHORT TERM INTEREST RATES IN

WEEK. INTEREST RATE ON THREE MONTH TREASURY BILLS WAS 8.17 PERCENT, COMPARED WITH 8.24 PERCENT PREVIOUS WEEK. BOND PRICES GAINED 1/4 - 1/2 POINT.
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10. GOC WILL FLOAT 3 PART CDOLS 700 MILLION LONG TERM DOMESTIC BOND ISSUE ON MAY 1. COUPONS RANGE FROM 8.75 PERCENT TO 9.5 PERCENT, DEPENDING ON MATURITY. MAXIMUM OF CDOLS 500 EXPECTED TO BE OFFERED TO PUBLIC WITH REMAINDER GOING TO BANK OF CANADA. NEWS OF ISSUE HAS NOT DISTURBED DOMESTIC BOND MARKETS.

11. FOREIGN BORROWING: GOC U.S.DOLS 750 MILLION BOND ISSUE FLOATED IN U.S. MARKET LAST MONTH IS SELLING AT SUBSTANTIAL DISCOUNT IN SECONDARY MARKET. OBSERVERS NOTED, HOWEVER, DISCOUNTING REFLECTS SOFTNESS IN MARKET, AND THAT GOC ISSUE SELLING CLOSER TO PRICE OF U.S. TREASURIES THAN ISSUES OF ANY OTHER COUNTRY.

12. COMMENT: IMPRESSIONS OF FIRST QUARTER: INDICATORS THUS FAR IN FIRST QUARTER GIVE IMPRESSION THAT PATTERN OF GNP GROWTH HAS BEEN CONSISTENT WITH CONSUMPTION/EXPORT LED GROWTH PROJECTED BY EMBASSY FOR THIS YEAR AS A WHOLE. CONTINUED (ALBEIT DECELERATING) GROWTH OF RETAIL SALES AND CONSUMER CREDIT INDICATE THAT CONSUMPTION SPENDING (ASSISTED BY JAN/FEB TAX CUT), IS HOLDING UP. HOWEVER, WEAKNESS IN NEW ORDERS AND SHIPMENTS FOR DURABLES MAY MEAN THAT SAVINGS RATIO HAS NOT DECLINED AND COULD HAVE RISEN FROM HIGH FOURTH QUARTER, 1977 LEVEL. NET EXPORTS EXPANDED SHARPLY IN FIRST QUARTER. IMPORTS HAVE PROBABLY DECLINED IN REAL TERMS FROM FOURTH QUARTER, 1977 LEVEL. PRODUCTION TRENDS REMAIN MODERATE AND CONSIDERABLE EXCESS CAPACITY PERSISTS. CONSEQUENTLY, IT IS UNLIKELY THAT PRIVATE INVESTMENT HAS PICKED UP. PROBABLE DECLINE IN REAL IMPORTS IN QUARTER APPEARS SOMEWHAT ANOMALOUS IN LIGHT OF MODERATE POSITIVE GROWTH OF PRODUCTION AND COULD INDICATE THAT INVENTORIES HAVE FALLEN IN REAL TERMS, PRODUCING A DRAG ON GNP GROWTH. DEPARTMENT OF FINANCE ESTIMATES REAL GNP GROWTH OF ABOUT 4 PERCENT AT ANNUAL RATE IN FIRST
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QUARTER, COMPARED WITH 3.2 PERCENT ANNUAL RATE OF INCREASE IN FOURTH QUARTER OF 1977. ENDERS

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